Summary of Economic Activity

On balance, business activity in the Third District continued to grow moderately during the current Beige Book period; however, activity in most sectors has not yet returned to pre-pandemic levels. The rate of adults being fully vaccinated against COVID-19 slowed but rose above 55 percent. Contacts noted that the rise in Delta variant cases has impacted activity in retail, restaurants, and travel. Meanwhile, supply chain disruptions grew worse. Net employment continued at a modest pace of growth, while prices, and now wages, grew moderately. About two-thirds of the nonmanufacturers and less than half of the manufacturers expressed positive expectations for continued economic growth over the next six months. Optimism has narrowed as the Delta variant has disrupted plant production, delayed a return to many offices, and increased uncertainty about the success of school reopenings this fall.

Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases held steady at one-fifth of nonmanufacturing firms and over one-third among the manufacturers. Overall, average hours worked rose for about one-fourth of all firms.

Hiring and retaining workers remained a challenge for many firms across all sectors. Contacts at staffing firms continued to report better candidate flow and are hoping for greater availability as schools reopen. However, contacts at other firms tended to report a decline in applicants per job since May – citing early retirements, career changes, childcare issues, and enhanced unemployment benefits. Reports of burnout are rising among workers and owners alike. The ongoing lack of workers has forced smaller retail and restaurant owners back to the register, the kitchen, and the dish room.

Wages rose moderately overall – somewhat more so than in the prior period. Wage pressure remains greatest for lower-wage jobs. The unusually high degree of labor market churn makes it difficult for firms to find an attractive wage. Two manufacturing firms reported opposing results from offering a $20 an hour wage – one noted improved hiring at all locations, another reported no applicants.

Over two-fifths of the nonmanufacturing firms reported higher wage and benefit costs per employee – comparable with pre-pandemic levels. Almost no firms reported lower compensation. The rate of growth in total compensation that firms expect over the next year has nearly doubled since last year.

Prices

On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs edged down to three-fourths, while those receiving higher prices for their own products edged a bit above one-half. However, the share of nonmanufacturers reporting higher prices for their inputs remained at about one-half, while the share receiving higher prices from consumers for their own goods and services edged below one-third.

About two-thirds of the manufacturing contacts reported they expect to pay higher prices over the next six months, and slightly more than that expected to receive higher prices for their own goods.

Looking ahead one year, the prices that firms anticipate receiving for their own goods and services rose further still – the expected rate of growth has nearly tripled among manufacturers since last year and has more than doubled for nonmanufacturers.

Manufacturing
On average, manufacturing activity continued to grow moderately. However, net increases of shipments and of new orders waned further from the prior period's level. Firms also reported lower net levels of backlogs and delivery times, while inventories turned negative. Contacts continued to note strong demand; however, production levels and employment remained below pre-pandemic levels.

Labor shortages continued and supply chain disruptions grew worse, according to many contacts. Many firms are still searching for an acceptable wage, others are waiting for government benefits to expire, and some continue to pursue automation where they can.

Consumer Spending
Retailers (nonauto) and restaurateurs continued to report modest growth. Labor shortages continued, and supply chain disruptions worsened – prompting one firm to rent its own refrigerated trucks to deliver food to its restaurant locations when the large distributors delay scheduled deliveries. Some contacts also noted a rising number of belligerent customers.

Auto dealers reported that new car sales fell significantly as factories have cut production predominantly because of the ongoing microchip shortage. Contacts opined that this situation may continue until at least next summer. Meanwhile, the lack of supply is driving prices (and margins) higher for new and used cars; the latter continue to sell at high levels.

Tourism contacts noted modest declines in activity as concerns about the Delta variant rose. Domestic tourism remained strong at mountain and shore destinations; however, some business and group bookings were canceled or postponed.

Nonfinancial Services
Nonmanufacturing activity continued to grow moderately; however, firms reporting increases in sales or revenues fell well below half. Moreover, on balance, output remained below pre-pandemic levels. A large service-sector firm noted steady growth and a low rate of nonpayment among its customers.

Financial Services
The volume of bank lending (excluding credit cards) fell modestly during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volumes grew modestly. Once again, commercial and industrial loans contracted significantly, while home equity lines and other consumer loans fell modestly. Auto lending and home mortgages grew modestly, and commercial real estate lending was flat. Credit card volumes grew moderately – faster than the modest pace during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report that very few problems with bad debt have emerged. Their concerns over personal and small business bankruptcies have waned; however, some still expect an uptick of small business bankruptcies after passage of another six months. Contacts continued to note the value that government assistance provided in keeping businesses afloat through the pandemic. However, they also noted that some businesses that were in trouble before the pandemic and were kept alive are beginning to fail now.

Real Estate and Construction
Homebuilders reported a slight drop-off in sales activity since the spring – attributed to rising prices, limited inventory, and less urgency from buyers. Many builders now have contracts to build houses that extend well into 2022. However, supply chain problems have worsened and are expected to continue for another year.

Existing home sales held steady, and availability remained low, but the market may have cooled a bit. Sellers still receive multiple offers, but with prices that are not as high above asking price as before. Contacts reported that the for-sale inventory ticked up from June to July (measured as months of supply), and one broker noted that sellers are currently waiting until the fall to list their houses.

Construction and leasing activity remained steady for nonresidential projects. Warehouses, institutional, and multifamily projects remain strong, while demand for office space has paused. ■

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